

**TRI-VALLEY ACADEMY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2006**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

October 13, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri-Valley Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

October 13, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006 on our consideration of Tri-Valley Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Tri-Valley Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The Academy had an increase in the fund balance for the general fund of \$53,187. This gives the Academy a fund balance in the general fund of \$506,470.
- The Academy's net assets improved by \$35,201 during 2006 to \$661,112.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

**Figure A-1**  
**Organization of Tri-Valley**  
**Academy's Financial Report**

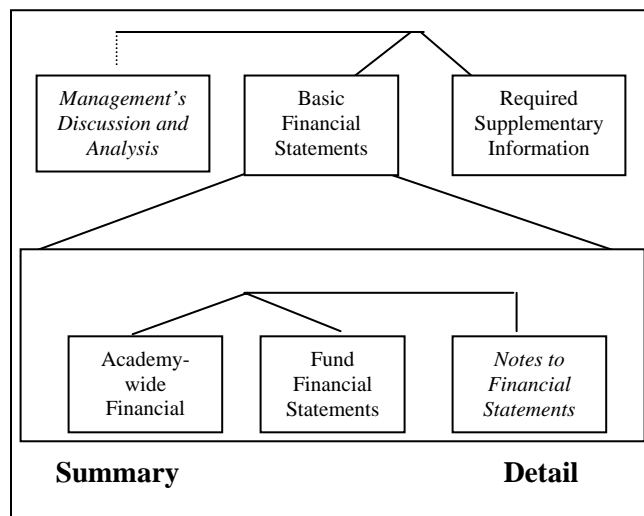


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets  * Statement of activities	* Balance sheet  * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

### **Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets of \$661,112 improved by \$35,201 during the year. See Figures A-3 and A-4.

The total revenues decreased by 4% to \$3,421,882. State aid foundation allowance included in revenue from state sources accounts for 63% of the Academy's revenue. The blended enrollment decreased 34 students in 2006 to 307 students. This resulted in a decrease in budgeted state foundation allowance payments of almost \$406,000.

The total cost of instruction decreased by over 9% to \$1,070,460. Total support services increased by almost 4% to \$1,865,760.

**Academy governmental activities**

<b>Figure A-3</b>		
<b>Tri-Valley's Net Assets</b>		
	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,697,421	\$ 964,891
Capital assets, net	<u>103,553</u>	<u>126,335</u>
Total assets	<u>1,800,974</u>	<u>1,091,226</u>
Current liabilities	<u>1,139,862</u>	<u>465,315</u>
Net assets:		
Invested in capital assets, net of related debt	103,553	126,335
Unrestricted	<u>557,559</u>	<u>499,576</u>
Total net assets	<u>\$ 661,112</u>	<u>\$ 625,911</u>

<b>Figure A-4</b>		
<b>Changes in Tri-Valley's Net Assets</b>		
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	<u>\$ 1,179,401</u>	<u>\$ 1,142,617</u>
Charges for service	<u>652</u>	<u>2,309</u>
General revenues:		
State aid - unrestricted	2,170,008	2,356,760
Investment	17	
Incoming transfers and other	<u>71,804</u>	<u>71,795</u>
Total general revenues	<u>2,241,829</u>	<u>2,428,555</u>
Total revenues	<u>3,421,882</u>	<u>3,573,481</u>
Expenses:		
Instruction	1,070,460	1,181,249
Support services	1,865,760	1,797,849
Community services	12,948	205
Food services	171,593	198,387
Athletics		1,072
Outgoing transfers and other transactions	242,080	189,958
Unallocated depreciation	<u>23,840</u>	<u>24,262</u>
Total expenses	<u>3,386,681</u>	<u>3,392,982</u>
Change in net assets	<u>\$ 35,201</u>	<u>\$ 180,499</u>



## **Financial analysis of the Academy's funds**

The financial operation of the Academy is considered stable. The fund balance at June 30, 2006 is \$506,470. There was a 4% decrease in general fund revenue and a 9% decrease in expenditures for instructional programs and an increase of 4% in expenditures for support services. The decrease in instructional expenditures was primarily due to added needs being much lower in 2006 compared to 2005.

The food service fund transferred \$3,983 to the general fund to cover indirect costs of food service. The excess of revenues over expenditures (prior to transfers to the general fund) in the special revenue fund was \$3,983 compared to an excess of expenditures over revenue of \$22,748 in 2005.

## **General fund budgetary highlights**

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources or uses by \$23,517, the actual results for the year showed an increase in fund balance of \$53,187.

Actual revenues were \$76,021 less than budgeted primarily due to not expending federal funds at the level anticipated.

Actual expenditures were \$148,690 under budget primarily due to successful implementation of an across-the-board cost savings strategy.

## **Capital assets**

As of June 30, 2006, the Academy had invested \$103,553 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$22,782 from the beginning of the year. Total depreciation expense for the year was \$23,840. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>Tri-Valley's Capital Assets</b>				
	<b>2006</b>			<b>2005</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Buildings	\$ 153,342	\$ 82,618	\$ 70,724	\$ 80,939
Leasehold improvements	69,858	67,672	2,186	2,602
Furniture and equipment	169,350	138,707	30,643	42,794
Total	<u>\$ 392,550</u>	<u>\$ 288,997</u>	<u>\$ 103,553</u>	<u>\$ 126,335</u>

### **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The foundation allowance has increased \$210 per student to \$7,385, an increase of 2.9%. Total general fund revenues for 2006-2007 were initially budgeted at \$3,350,160. Total expenses for 2006-2007 were estimated at \$3,331,351. The Academy continues to place emphasis upon enrollment increases through new working strategies. Enrollment growth will be imperative in continuing financial growth, allowing for facility expansion, and offering additional programmatic opportunities.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

**TRI-VALLEY ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>ASSETS</b>	<b><u>Governmental activities</u></b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents		\$ 984,080
Due from other governmental units		665,507
Prepaid expenses		<u>47,834</u>
<b>TOTAL CURRENT ASSETS</b>		<u>1,697,421</u>
<b>NONCURRENT ASSETS:</b>		
Capital assets		392,550
Less accumulated depreciation		<u>(288,997)</u>
Net capital assets		<u>103,553</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 1,800,974</u></u>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>		
Accounts payable		\$ 149,047
Other accrued expenses		86,270
Notes payable		<u>904,545</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,139,862</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt		103,553
Unrestricted		<u>557,559</u>
<b>TOTAL NET ASSETS</b>		<u>661,112</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>\$ 1,800,974</u></u>

**TRI-VALLEY ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,070,460	\$	\$ 697,874	\$ (372,586)
Support services	1,865,760		64,523	(1,801,237)
Community services	12,948			(12,948)
Food services	171,593	652	174,924	3,983
Outgoing transfers and other transactions	242,080		242,080	
Unallocated depreciation expense	23,840			(23,840)
Total governmental activities	<u>\$ 3,386,681</u>	<u>\$ 652</u>	<u>\$ 1,179,401</u>	<u>(2,206,628)</u>
General revenues:				
Investment earnings				17
State sources				2,170,008
Intermediate sources				71,772
Local sources				<u>32</u>
Total general revenues				<u>2,241,829</u>
<b>CHANGE IN NET ASSETS</b>				35,201
<b>NET ASSETS, beginning of year</b>				<u>625,911</u>
<b>NET ASSETS, end of year</b>				<u><u>\$ 661,112</u></u>

**TRI-VALLEY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 984,080	\$	\$ 984,080
Due from other governmental units	665,507		665,507
Prepaid expenses	47,834		47,834
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 1,697,421</b>	<b>\$</b>	<b>\$ 1,697,421</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 149,047		\$ 149,047
Other accrued expenses	86,270		86,270
Deferred revenue	51,089		51,089
Note payable	904,545		904,545
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>1,190,951</b>		<b>1,190,951</b>
<b>FUND BALANCES:</b>			
Unreserved, undesignated	506,470		506,470
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,697,421</b>	<b>\$</b>	<b>\$ 1,697,421</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL GOVERNMENTAL FUND BALANCES</b>			<b>\$ 506,470</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		392,550	
Accumulated depreciation is		<u>(288,997)</u>	
			103,553
Deferred revenue expected to be collected after September 1, 2006:			
MCISD special education allocation			<u>51,089</u>
<b>Net assets of governmental activities</b>			<b>\$ 661,112</b>
			<hr/>

**TRI-VALLEY ACADEMY  
S, EXPENDITURES AND CHA  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006**

	General fund	Other nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>			
Local sources:			
Private sources	\$ 32	\$	\$ 32
Food service		652	652
Investment income	17		17
Total local sources	49	652	701
State sources	2,455,249	16,392	2,471,641
Federal sources	719,236	158,532	877,768
Intermediate school district	66,976		66,976
Total revenues	3,241,510	175,576	3,417,086
<b>EXPENDITURES:</b>			
Instruction:			
Basic programs	822,580		822,580
Added needs	248,938		248,938
Total instruction	1,071,518		1,071,518
Support services:			
Pupil	151,022		151,022
Instructional staff	271,065		271,065
General administration	233,208		233,208
School administration	227,755		227,755
Business	123,811		123,811
Operation and maintenance	572,042		572,042
Transportation	189,763		189,763
Central services	97,094		97,094
Total support services	1,865,760		1,865,760
	General fund	Other nonmajor governmental funds	Total governmental funds
<b>EXPENDITURES (Concluded):</b>			
Community service	\$ 12,948	\$	\$ 12,948
Food service		171,593	171,593
Outgoing transfers and other transactions	242,080		242,080
Total expenditures	3,192,306	171,593	3,363,899
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	49,204	3,983	53,187
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	3,983		3,983
Operating transfers out		(3,983)	(3,983)
Total other financing sources (uses)	3,983	(3,983)	
<b>NET CHANGE IN FUND BALANCES</b>	53,187		53,187
<b>FUND BALANCES:</b>			
Beginning of year	453,283		453,283
End of year	\$ 506,470	\$	\$ 506,470

**TRI-VALLEY ACADEMY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

<b>Net change in fund balances total governmental funds</b>	<b>\$ 53,187</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(23,840)
Capital outlay	1,058

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(46,293)
Deferred revenue, end of the year	51,089

<b>Change in net assets of governmental activities</b>	<b>\$ 35,201</b>
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**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Tri-Valley Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

The Tri-Valley Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Grand Valley State University is the authorizing governing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.



**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

**Other Non-major Funds**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activities in the special revenue fund.

**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

The state portion of the foundation is provided primarily by a state education property tax mileage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other Accounting Policies**

**1. Cash and equivalents**

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**TRI-VALLEY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	10 - 39 years
Furniture and other equipment	5 - 10 years

The Academy’s capitalization policy is to capitalize individual amounts exceeding \$1,000.

**TRI-VALLEY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations expire at the end of the fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

**NOTE 3 - CASH DEPOSITS - CREDIT RISK**

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2006, approximately \$788,000 of the Academy's bank balance of \$988,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings	\$ 153,342	\$	\$	\$ 153,342
Leasehold improvements	69,858			69,858
Equipment and furniture	168,292	1,058		169,350
	<u>391,492</u>	<u>1,058</u>	<u></u>	<u>392,550</u>
Total capital assets being depreciated				
	<u>391,492</u>	<u>1,058</u>	<u></u>	<u>392,550</u>
Accumulated depreciation:				
Buildings	72,403	10,215		82,618
Leasehold improvements	67,256	416		67,672
Equipment and furniture	125,498	13,209		138,707
	<u>265,157</u>	<u>23,840</u>	<u></u>	<u>288,997</u>
Total accumulated depreciation				
	<u>265,157</u>	<u>23,840</u>	<u></u>	<u>288,997</u>
Net governmental capital assets	<u>\$ 126,335</u>	<u>\$ (22,782)</u>	<u>\$</u>	<u>\$ 103,553</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$23,840. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTES PAYABLE**

At June 30, 2006, the Academy has \$904,545 outstanding from two revenue notes. The first note is dated October 3, 2005, has an interest rate of 5.06 %, and matures September 5, 2006. The second note is dated June 27, 2006, has an interest rate of 5.00%, and matures June 26, 2007. Both notes are secured by future state school aid payments.

	Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
Note 1 - 3.60%	\$ 118,182	\$	\$ 118,182	\$
Note 2 - 5.06%		575,000	470,455	104,545
Note 3 - 5.00%		800,000		800,000
	<u>\$ 118,182</u>	<u>\$ 1,375,000</u>	<u>\$ 588,637</u>	<u>\$ 904,545</u>

**NOTE 6 - OPERATING LEASE**

The Academy leases its building from an affiliate of a Board Member. The Academy is responsible for insurance, repairs, and maintenance related to the facility. The Academy incurred rent expense in connection with the lease of approximately \$511,000 for the year ended June 30, 2006. The lease expires November 2011.

In addition, in September 2006, the Academy entered into an agreement to lease a bus for the transportation of students. The lease expires May 2009.

Minimum future lease payments are as follows:

Year ending	
2007	\$ 523,316
2008	525,764
2009	524,540
2010	511,078
2011	511,078
2012	212,949



**TRI-VALLEY ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Grand Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$66,000 for oversight fees.

**NOTE 8 - MANAGEMENT AGREEMENT**

The Academy had a management agreement, which expired June 30, 2006, with The Leona Group, LLC (Leona Group) for operations of the Academy. Under the terms of the management agreement, Leona Group's compensation for operating the Academy was approximately \$318,000.

The Academy leased all employee services from Leona Group, the management company (see Note 9). Salaries, retirement, social security, health insurance, and unemployment taxes were the responsibility of Leona Group. The Leona Group also provided grant evaluation services totaling \$45,000.

Effective July 1, 2006, the Academy entered into a five year (through June 2011) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy will be 10% of gross revenues for the management, operation and administration of the Academy.

**NOTE 9 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TRI-VALLEY ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
<b>REVENUES:</b>				
Local	\$	\$ 49	\$ 49	\$
State sources	2,839,743	2,449,445	2,455,249	5,804
Federal sources	845,928	861,197	719,236	(141,961)
Incoming transfers	7,500	6,840	66,976	60,136
Total revenues	3,693,171	3,317,531	3,241,510	(76,021)
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	810,961	872,963	822,580	50,383
Added needs	383,654	270,882	248,938	21,944
Total instruction	1,194,615	1,143,845	1,071,518	72,327
Support services:				
Pupil	159,253	151,078	151,022	56
Instructional staff	202,863	273,248	271,065	2,183
General administration	267,542	241,117	233,208	7,909
School administration	256,045	242,988	227,755	15,233
Business	121,837	123,247	123,811	(564)
Operation and maintenance	650,259	591,421	572,042	19,379
Transportation services	168,045	172,961	189,763	(16,802)
Central services	131,273	112,231	97,094	15,137
Total support services	1,957,117	1,908,291	1,865,760	42,531

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
<b>EXPENDITURES: (Concluded)</b>				
Community service	\$ 723	\$ 18,242	\$ 12,948	\$ 5,294
Outgoing transfers and other transactions	395,001	270,618	242,080	28,538
Total expenditures	3,547,456	3,340,996	3,192,306	148,690
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	145,715	(23,465)	49,204	72,669
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in (out)	(32,375)	(52)	3,983	4,035
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 113,340</u>	<u>\$ (23,517)</u>	53,187	<u>\$ 76,704</u>
<b>FUND BALANCE:</b>				
Beginning of year			453,283	
End of year			\$ 506,470	

**TRI-VALLEY ACADEMY**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2006**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

October 13, 2006

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri-Valley Academy as of and for the year ended June 30, 2006, which collectively comprise Tri-Valley Academy's basic financial statements and have issued our report thereon dated October 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-Valley Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors  
Tri-Valley Academy

October 13, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-Valley Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Tri-Valley Academy in a separate letter dated October 13, 2006.

This report is intended solely for the information and use of the Board of Directors, management and the U.S. Department of Education, Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants



Iamonte T. Lator  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

October 13, 2006

Compliance

We have audited the compliance of Tri-Valley Academy with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Tri-Valley Academy's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Tri-Valley Academy's management. Our responsibility is to express an opinion on Tri-Valley Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-Valley Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tri-Valley Academy's compliance with those requirements.



To the Board of Directors  
Tri-Valley Academy

October 13, 2006

In our opinion, Tri-Valley Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of Tri-Valley Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tri-Valley Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri-Valley Academy as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Tri-Valley Academy's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

**TRI-VALLEY ACADEMY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2005	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch Program - Breakfast	10.553	051970	\$ 61,379	\$ 3,322	\$ 52,393	\$ 8,985	\$ 5,663	\$
National School Lunch Program - Breakfast	10.553	061970	48,902			39,810	48,902	9,092
National School Lunch Program - Section 4	10.555	051950	2,561	626	626	2,561	1,935	
National School Lunch Program - Section 4	10.555	061950	8,277			7,147	8,277	1,130
National School Lunch Program - Section 11	10.555	051960	21,262	4,729	4,729	21,262	16,533	
National School Lunch Program - Section 11	10.555	061960	69,426			60,274	69,426	9,152
Total Child Nutrition Cluster			211,807	8,677	57,748	140,039	150,736	19,374
Commodities: Food Distribution:								
Entitlement	10.550		4,114		11,753	4,114	4,114	
Bonus			1,836		2,173	1,836	1,836	
			5,950		13,926	5,950	5,950	
Fresh Fruit and Vegetable Program	10.582		1,846			1,496	1,846	350
Total U.S. Department of Agriculture			219,603	8,677	71,674	147,485	158,532	19,724
<u>U.S. Department of Education:</u>								
Direct program:								
Safe and Drug Free Schools - Community Service Grant	84.184B	Q184B041314	988,270	40,935	233,961	280,159	310,236	71,012

The accompanying notes are an integral part of this schedule.

**TRI-VALLEY ACADEMY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2005	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Continued):</u>								
Passed through Michigan Department of Education:								
Title I	84.010	0415300405	\$ 21,309	\$ 16,355	\$ 21,309	\$ 16,355	\$	\$
		0515300405	245,795	72,290	235,404	82,681	10,391	
		0615300506	191,975			137,166	147,253	10,087
			459,079	88,645	256,713	236,202	157,644	10,087
Title V LEA Allocation	84.298	050250-0405	1,943	1,534	1,752	1,725	191	
		060250-0506	4,614			1,318	1,404	86
			6,557	1,534	1,752	3,043	1,595	86
Title II, Part D - Technology literacy challenge grants	84.318	054290-0405	6,420		3,115	3,305	3,305	
		064290-0506	5,027			1,723	1,790	67
			11,447		3,115	5,028	5,095	67
Reading First State Grant	84.357	052930-050601	128,250			128,250	128,250	
Title II, Part A - Improving teacher quality	84.367	050520-0405	49,757	9,880	48,066	11,571	1,691	
		060520-0506	50,201			50,201	50,201	
			99,958	9,880	48,066	61,772	51,892	
Total passed through Michigan Department of Education			705,291	100,059	309,646	434,295	344,476	10,240

The accompanying notes are an integral part of this schedule.

**TRI-VALLEY ACADEMY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2005	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Concluded):</u>								
Passed through Muskegon County Intermediate School District: Individuals with Disabilities Education Act	84.173	050450-0405	\$ 67,083 63,316	\$ 67,083	\$ 67,083	\$ 67,083	\$ 63,316	\$ 63,316
			130,399	67,083	67,083	67,083	63,316	63,316
Total U.S. Department of Education			1,823,960	208,077	610,690	781,537	718,028	144,568
<u>U.S. Department of Health and Human Services:</u>								
Passed through Muskegon County Intermediate School District: Medicaid Outreach	93.778		15,000			1,208	1,208	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,058,563	\$ 216,754	\$ 682,364	\$ 930,230	\$ 877,768	\$ 164,292

The accompanying notes are an integral part of this schedule.

**TRI-VALLEY ACADEMY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Tri-Valley Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA #84.184B was audited as the major program, representing 35% of expenditures. The Academy qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 719,236
Special revenue fund	<u>158,532</u>
Subtotal	<u><u>\$ 877,768</u></u>

6. During the year ended June 30, 2006, \$242,080 of Safe and Drug-Free Schools and Communities Service Grant funds, CFDA 84.184B, were passed through to the following entities:

Francis Reh Public School Academy	\$ 69,963
William C. Abney Academy	52,317
Northridge Academy	57,594
New City Academy	<u>62,206</u>
Total amounts provided to subrecipients	<u><u>\$ 242,080</u></u>

**TRI-VALLEY ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting

➤ Material weakness(es) identified:

\_\_\_\_\_ Yes   X   No

➤ Reportable condition(s) identified that are not considered to be material weaknesses?

\_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified:

\_\_\_\_\_ Yes   X   No

➤ Reportable condition(s) identified that are not considered to be material weakness(es)?

\_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.184B	Safe and Drug Free Schools

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

**TRI-VALLEY ACADEMY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

There were no prior year audit findings for the year ended June 30, 2005.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

October 13, 2006

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

In planning and performing our audit of the financial statements of Tri-Valley Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated October 13, 2006, on the financial statements of Tri-Valley Academy.

#### Lunch Fund Receipts

During our audit, we became aware that lunch fund receipts were being used for the purchase of goods instead of being deposited into the Academy's bank account. Although the amount of funds received from students is immaterial, we recommend the Academy institute procedures for lunch receipts to be deposited into bank accounts. This will provide better control over both cash receipts and disbursements. In addition, lunch fund receipts should be reconciled with meals served by someone independent of the cash receipts process.



## **General Information**

### **Budget Enforcement by the Michigan Department of Education**

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Michigan Department of Education will be issuing letters to school board presidents, the chief administrative officer and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Michigan Department of Education is also reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where budget violations will continue as disclosed in footnote 2 of the financial statements. While there may be technical violations of the Act, we believe the Academy's current budget procedures are adequate.

### Cash Management

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

### New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency." Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, the Academy's financial statements and footnotes have been prepared by its auditors. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exist.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

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October 13, 2006

This report is intended solely for the information and use of Tri-Valley Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costeisan + Ellis, P.C.*



Lamonte T. Lator  
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October 13, 2006

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

We have audited the financial statements of Tri-Valley Academy for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated August 14, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Tri-Valley Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Tri-Valley Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Tri-Valley Academy's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Tri-Valley Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Tri-Valley Academy's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tri-Valley Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Tri-Valley Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Board of Directors  
Tri-Valley Academy  
Muskegon, Michigan

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October 13, 2006

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of directors and management of Tri-Valley Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*